

Angola – From Boom To Bust

Overview

By 2012 Angola's capital city Luanda was listed as the one of world's most expensive to live in as the oil boom drew in large numbers of foreign firms and expatriates eager to grab their slice of the pie, this in turn sent property prices through the roof and raised the cost of an ordinary hamburger in one of the freshly built business hotels to as much as US\$50 per serving. In 2016 a completely new mood pervades this southern African city, with the once over-booked hotels now reporting very low occupancy figures and many expats already back home after oil firms retrenched thousands of workers. This rapid decline was triggered by the unanticipated sharp fall in oil prices but exacerbated by poor fiscal management and economic planning, both of which have led Angola into a spiraling crises highlighted by Standard & Poors' recent downgrade of Angola's credit ratings and who expect gross general government debt to reach 50% of GDP this year.

Currency Crises

Angola is Africa's second largest oil producer but as is the case with Nigeria and Venezuela, it relies almost entirely on crude oil sales which account for more than 75% of government revenues and 95% of the country's foreign exchange inflows. An ensuing shortage of hard currency, as the oil price plummeted these past 18 months, encouraged the authorities to tighten their already stringent FX controls including limiting withdrawals from onshore foreign currency accounts, rationing the amount of hard currency the Central Bank allocates via auctions to the local banks, and slowly adjusting the official exchange rate lower.

Despite these 'managed' devaluations which saw a 34% fall in the value of the Kwanza over the past 12 months, the spread between the official exchange rate and that being used on the street has continued to widen as ordinary Angolans rely more heavily on the black market to access scarce foreign currency. The Kwanza has fallen to almost 400.00 per US dollar in the parallel market against a current official rate of 158.39. This in turn is pushing consumer prices higher with inflation hitting 14.27% y/y in December last year. The net FX reserves held by the Central Bank totaled US\$24.1 bio in December 2015, a more than 11% drop compared to the same period in 2014, although it still covers around 6 months of imports.

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Missed Opportunities

Benefiting from more than a decade of record economic growth, achieved following the end of a 27-year old civil war in 2002, the government admittedly invested billions into rebuilding and replacing war damaged infrastructure, but also spent heavily on a series of rash real estate projects, aggressively expanded its military capabilities, neglected to prioritize key economic diversification and social upliftment programs and failed to successfully combat widespread corruption and excessive bureaucracy. The decision not to actively diversify Angola's economy away from oil is one of the government's primary missed opportunities especially when you consider that on top of its huge mineral resources the country has vast tracts of land perfect for the successful establishment of crop and timber estates, rich fishing grounds, plenty of rivers for hydro-power generation and is blessed with enough wildlife and scenic beauty to tempt foreign tourists away from the usual exotic destinations. Thus despite the petro-boom a significant proportion of Angola's population remains stuck below the poverty line and the country still ranks a lowly 149 out of 186 according to the UN's 2015 Human Development Index. Now with the recent drop in government revenues there has been a further reduction in the amount of funds allocated towards basic services such as garbage collection, water sanitation and health, which in turn has precipitated a jump in the number of reported cases of cholera, diarrhea and yellow fever in recent months.

Outlook

This situation, should it continue to deteriorate, risks social upheaval in a country that is still struggling to overcome the physical and emotional trauma of one of Africa's longest ever civil wars. Such a risk was already highlighted in a PwC report published last year which warned that a shrinking government budget could eventually result in the inability to pay public sector salaries, and reduce even further the adequate provision social services, which may lead to "social instability." One senior member of UNITA, the official opposition party and former military adversary of the ruling MPLA government, reportedly supported such a concern claiming that the economic crises faced by the country is "unprecedented" and that the government was not meeting its obligations. In response to the crises the government held a number of ministerial consultations and recently issued a statement in which it said it would, amongst other things, implement delayed reforms, actively combat hunger and poverty, tailor the payments schedule of public debt, increase non-oil tax revenues, (including a possible tax on banking operations) optimize public spending, focus on the restructuring of key state enterprises, rationalize the import of goods and services and encourage the domestic production of a range of products. Exact details and

implementation dates for these plans are yet to be confirmed but with oil prices unlikely to recover sufficiently in the short-term they will need to be enacted swiftly and managed efficiently with the assistance and advice from institutions such as the IMF and World Bank if Angola is to pull back from the edge.

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